

STATE FINANCE COMMITTEE  
OLYMPIA, WASHINGTON

January 23, 2001

The State Finance committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer  
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer  
Jeanne Cushman, Office of the Attorney General  
Darlene DeRose, Montague DeRose & Associates  
Bill Tonkin, Foster Pepper & Shefelman  
Kristi Wolgamot, Office of the State Treasurer  
Dean Torkelson, Seattle Northwest Securities  
Bill Doyle, Orrick Herrington & Sutcliffe  
Susan Musselman, Susan D. Musselman, Inc.  
Robert Shelley, Seattle Northwest Securities  
Svein Braseth, Office of the State Treasurer  
Janis Kingery, Department of Ecology  
Nancy Stevenson, Department of Ecology  
Vicki Cox, Office of the State Treasurer  
Bill Starkey, Department of Transportation  
Shad Pruitt, Office of the State Treasurer  
Rodney Wendt, Orrick Herrington & Sutcliffe  
Morgan Jacobson, Office of the State Auditor  
Suzanne Coit, Office of the State Treasurer  
Sue Melvin, Office of the State Treasurer  
Barton Potter, Office of the State Treasurer  
Jim Martin, Office of the Attorney General  
Scott Davies, University of Washington  
Mike Roberts, Office of Financial Management  
Martin Reynoso, Office of the State Treasurer

Chairman Murphy called the meeting to order.

Lt. Governor Owen moved the minutes for the December 18, 2000 meeting be approved. Chairman Murphy seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin said proposed Resolution No. 932 awards the sale of State of Washington Various Purpose General Obligation Bonds, Series 2001C in the aggregate principal amount of \$295,075,000; fixing the interest rates and designating serial and term bond maturities for the bonds; all in accordance with Resolution No. 928. The Series 2001C will be used to finance projects authorized by the 1999-01 capital budget. Bond proceeds from this proposed issue are to be deposited or transferred to the following funds: State Building Construction Account (fund

057), State Higher Education Construction Account (fund 056), and Higher Education Construction Account (fund 01L).

Mr. Martin said four bids were received at 8:00 a.m. Pacific Standard Daylight Time. Bear, Stearns & Co., Inc. submitted a true interest cost (TIC) of 5.0396526%, Goldman, Sachs & Co. submitted a TIC of 5.0301765%, Merrill Lynch & Co. submitted a TIC of 5.0383577% and Salomon Smith Barney submitted a TIC of 5.0315362%, with the apparent winning bid provided by Goldman, Sachs & Co. Mr. Torkelson said the bids were extremely competitive and he could not recall when he had seen bids so close in percentage points.

Mr. Martin presented proposed Resolution No. 932 to the committee.

Resolution No. 932 awards the sale of \$295,075,000, State of Washington Various Purpose General Obligation Bonds Series 2001C, authorized by Chapter 14, Laws of 1989, 1<sup>st</sup> ex. sess., as amended, and Chapter 380, Laws of 1999, reg. sess.

Lt. Governor Owen moved to adopt Resolution No. 932. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 933 awards the sale of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2001D in the aggregate principal amount of \$171,190,000; fixing the interest rates and designating serial and term bond maturities for the bonds; all in accordance with Resolution No. 929. The proceeds will provide funds to pay and reimburse various state highway projects and to pay and reimburse the transportation improvement account.

Mr. Martin said three bids were received at 8:00 am Pacific Standard Daylight Savings Time. Goldman Sachs & Co. submitted a TIC of 5.0322964%; Merrill Lynch & Co. submitted a TIC of 5.0319084%, and Salomon Smith Barney submitted a TIC of 5.0263257%, with the apparent winning bid provided by Salomon Smith Barney. Mr. Torkelson said these bids were also extremely close.

Mr. Martin presented proposed Resolution No. 933 to the committee.

Resolution No. 933 awards the sale of \$171,190,000, State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2001D, authorized by RCWs 47.10.843, 47.10.761 & 762, 47.10.812, 47.10.819, 47.10.834 and 47.26.500.

Lt. Governor Owen moved to adopt Resolution No. 933. Chairman Murphy seconded the motion and the resolution was adopted.

Chairman Murphy explained that authorization of the COPs by the State Finance Committee is being requested pursuant to an internal policy whereby no projects over \$4 million will be financed without approval of the State Finance Committee by resolution. Ms. Wolgamot said Proposed Resolution No. 934 authorizes the issuance and sale of an amount up to \$7,640,000 of state of Washington Certificates of Participation (Peninsula College, Green River Community College, Tacoma Community College and Whatcom Community College) plus

financing costs and required reserves pursuant to Laws of 1999, Chapter 379, Section 905 (4)(a), (f), (l) and (q). Proceeds of the sale will be used for additions and remodeling to the student centers located on the Peninsula, Green River and Tacoma Community College main campuses and for the acquisition of property for the Whatcom Community College Cordata Campus.

Mr. Martin presented proposed Resolution No. 934 to the committee.

Resolution No. 934 approves State Agency Financing Leases and related documents to be entered into by the State Board for Community and Technical Colleges on behalf of Green River Community College, Peninsula College, and Tacoma Community College for remodeling and additions to their respective student centers and on behalf of Whatcom Community College for the acquisition of land for its Cordata Campus, all as authorized by Laws of 1999, Chapter 379, Section 905 (4)(a), (f), (l) and (q), and the issuance and sale of up to \$7,640,000, plus financing expenses and required reserves, of State of Washington Certificates of Participation, State Board for Community and Technical Colleges, Series 2001A (Green River, Peninsula, Tacoma and Whatcom Projects), therein.

Lt. Governor Owen moved to adopt Resolution No. 934. Chairman Murphy seconded the motion and the resolution was adopted.

Chairman Murphy acknowledged the presence of Jim Martin, Nancy Stevenson and Janis Kingery in support of the Department of Ecology Building refinancing. Ms. Wolgamot said in May 1991, the state issued \$78.8 million Certificates of Participation (COPs) to finance construction of the Department of Ecology (DOE) building on the St. Martin's campus in Lacey. This was the first state real estate lease/purchase or COP project to be brought to market by the State. The true interest cost of this transaction was approximately 7 percent. The concept behind the DOE building was to enable the Department to move out of 20+ private lease sites in Thurston County and centralize operations in a long-lived facility with a known debt repayment schedule. DOE committed to the Legislature that debt service payments on the new building would be at or below the Department's projected rental payments under existing leases.

In order to fulfill this commitment, compromises had to be made to reduce annual cost. Among these were a ten-year call with a 2 percent prepayment premium and \$27.8 million discount bonds maturing between 2013 and 2016. For the past ten years, these provisions have made refinancing uneconomic. Recently, however, interest rates have fallen to the point that a refunding would produce substantial interest rate savings. The 2016 Term Certificates may not be economic refunding targets, with interest rates at 5 percent.

Proposed Resolution No. 935 provides for refunding of the 1991 issue. At this time we anticipate refunding approximately two-thirds of the issue (2002 – 2012) and will continue to monitor the 2016 term certificates to determine if refunding is feasible. Subject to market conditions, the savings of such a refunding will reduce DOE's annual debt service outlays by over \$400,000. This scenario generates a present value savings ratio in excess of the savings threshold established by the State Finance Committee in the state's Debt Issuance Policy.

Since this is a lease/purchase transaction, the proposed Resolution authorizes the State Treasurer to take the refunding into the market without the necessity of returning to the Finance

Committee for approval of bids. The proposal authorizes the Treasurer to proceed subject to meeting the present value savings threshold set forth in the Debt Issuance Policy and obtaining an average interest rate no greater than 6.5 percent for the transaction.

Mr. Martin presented proposed Resolution No. 935 to the committee.

Resolution No. 935 authorizes the execution, delivery and sale of up to \$50,000,000, plus financing costs and reserves, more or less, State of Washington Refunding Certificates of Participation (State Office Building Project) Series 2001, pursuant to Section 39.94 RCW.

Lt. Governor Owen moved to adopt Resolution No. 935. Chairman Murphy seconded the motion and the resolution was adopted.

Chairman Murphy acknowledged the presence of Scott Davis in support of the University of Washington Certificates of Participation. Mr. Reynoso said Proposed Resolution No. 936 authorizes the execution, delivery and sale of up to \$12,000,000, plus financing costs and reserves, more or less, State of Washington Certificates of Participation (University of Washington) Series 2001 to provide funds for the University of Washington (UW) for renovation of the Husky Den and certain food services, authorizes the execution and delivery of financing documents in connection with such certificates, including a notice of sale, a state agency financing lease, a site lease, a trust agreement and assignment, and provides for related matters, pursuant to the authority contained in Section 39.94 RCW and Chapter 379, Section 906(6)(c), Laws of 1999, as amended. Proceeds of the sale will be used by the University of Washington to pay for the costs related to the Husky Den Food Service project, which will support a change to open, "food court" style services, made up of free-standing kiosks. The Husky Den is the largest food service on campus, serving 7,000 customers a day. Mr. Davis said the Husky Den Food Court will all be operated by UW personnel. Plans call for this facility to be redesigned into a true food court, with multiple outlets at self-contained kiosks.

Mr. Martin presented proposed Resolution No. 936 to the committee.

Resolution No. 936 authorizes the execution, delivery and sale of up to \$12,000,000, plus financing costs and reserves, more or less, State of Washington Certificates of Participation (University of Washington) Series 2001, pursuant to Section 39.94 RCW and Chapter 379, Section 906(6)(c), Laws of 1999, as amended.

Lt. Governor Owen moved to adopt Resolution No. 936. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Reynoso said Proposed Resolution No. 937 authorizes the execution, delivery and sale of up to \$5,700,000, plus financing costs and reserves, more or less, State of Washington Certificates of Participation (University of Washington) Series 2001 to provide funds for the University of Washington for Ethernet wiring and electrical upgrades, authorizes the execution and delivery of financing documents in connection with such certificates, including a notice of sale, a state agency financing lease, a site lease, a trust agreement and an assignment, and provides for related matters, pursuant to the authority contained in Section 39.94 RCW and

Chapter 379, Section 906(6)(d), Laws of 1999, as amended. Prior to the autumn of 2000, access to the Ethernet was provided to students in five of seven residence halls. The Lander Hall and McCarty Hall projects will allow residence hall students access to the University's computer systems and the Internet. The demand for Ethernet services has grown steadily over the years; the percentage of residence hall students bringing personal computers to school grew from 41 percent in the autumn of 1994 to 88 percent in the autumn of 2000. Students rely heavily on Ethernet access to support their academic pursuits.

Mr. Martin presented proposed Resolution No. 937 to the committee.

Resolution No. 937 authorizes the execution, delivery and sale of up to \$5,700,000, plus financing costs and reserves, more or less, State of Washington Certificates of Participation (University of Washington) Series 2001, pursuant to Section 39.94 RCW and Chapter 379, Section 906(6)(d), Laws of 1999, as amended.

Lt. Governor Owen moved to adopt Resolution No. 937. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said Chapter 43.80 RCW requires the State Finance Committee (SFC) to appoint a fiscal agent(s) to serve for a period of four years. The Fiscal Agent serves as the paying agent to bond holders on bonds issued by the state and its political subdivisions. The current contract was extended by Resolution No. 911 and continues through January 31, 2002. The Bank of New York and Wells Fargo Bank acting as co-fiscal agent, have served as agents since 1993. Issuers under the Fiscal Agency include counties, cities and towns, metropolitan municipal corporations, port districts, school districts, townships, public colleges and universities, public community colleges, municipal corporations, quasi municipal corporations, and all other such governmental agencies authorized to borrow and issue tenders of indebtedness. Housing Authorities and Public Utility Districts are not covered by the Act.

Mr. Martin said there were 39 counties participating with 392 obligors, representing over 3,558 issues. Par value of bonds covered by fiscal agent contract is \$30,908,006,572. There are \$405 million bearer bonds and \$23 billion registered bonds. There are 2,597 (70.5%) bonds issued at \$5 million or less; 747 (22.9%) bonds issued at \$5 to \$25 million and 214 (6.6%) bonds issued for over \$25 million. On average, there are about 27 new issues each month. During 1999, about 15,000 coupons were paid to bond holders each month. In-state payments by Wells Fargo, the local presentment bank, averaged 750 every six months. Ownership changes (registrar and transfer activity) averaged 660 per month. Approximately 60 bond calls per month occurred. During the last two years of the contract, the fiscal agent fees paid totaled \$2,468,412 with rebates over the same period amounting to \$8,740,746.

Since 1997, representatives of the Washington Finance Officers Association, Washington Municipal Treasurers Association and Washington State Association of County Treasurers have traveled along with state treasurer staff to New York to conduct a due diligence review of the Bank of New York operations. The Working Group members are: Doug Lasher, Clark County Treasurer; Michael Bailey, City of Lynnwood; Robert Nolan, City of Kennewick; Scott Matheson, King County; and Bill James, Port of Port Angeles. Mr. Martin said OST staff has gathered statistical information from the Bank of New York, requested local participation, and put together a draft selection

schedule. The working group anticipates three meetings to review current practices, solicit inputs and ideas for drafts of the RFP, arrange bidder conference materials, address future practices and concerns, and review the RFP. Mr. Martin said that a recommendation for fiscal agent services will be made to the committee prior to the expiration of the current contract.

There being nothing further to come before the committee, the meeting was adjourned at 9:34 a.m.

STATE FINANCE COMMITTEE  
STATE OF WASHINGTON

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Michael J. Murphy, State Treasurer & Chairman

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Gary Locke, Governor & Member

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Brad Owen, Lieutenant Governor & Member

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Allan J. Martin  
Deputy State Treasurer & Secretary